

# INTEROFFICE MEMO



COUNTY OF SAN BERNARDINO

**DATE:** October 3, 2000

**PHONE:** 386-8813

**FROM:** **Larry Walker**  
Auditor/Controller-Recorder

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**TO:** **Honorable Roberta McPeters**  
Presiding Judge  
Superior Court

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**SUBJECT: RESPONSE TO 1999-2000 SAN BERNARDINO COUNTY GRAND JURY REPORT**

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The Auditor/Controller-Recorder (ACR) responds to those items in the Grand Jury Final Report 1999-2000 as follows:

Items 39, 44, 46-48, 111-113, and 152 relate to the ACR directly. Items 41, 182, 191, 198, 206, and 209-212 indirectly involve this office. The directly related items are dealt with first, followed by the others.

Our response to the findings and recommendations is as follows:

ITEMS DIRECTLY RELATED TO THE OFFICE OF THE AUDITOR/CONTROLLER-RECORDER:

**Item 39:**

**Finding: The County Auditor/Controller-Recorder is required to conduct an audit of the Treasurer's function once a year. A complete audit has not been done for 6-8 years, except for periodic surprise cash audits. An annual audit by the Auditor, or by staffing an internal audit function within the department, would likely have picked up or prevented the recent embezzlement in the Tax Collector function.**

Response: State law does not require annual departmental audits, but the language of various county charter provisions and policies is not totally consistent, and some sections suggest this pattern. Past practice has been to rotate the departments subjected to this level of review, so that each was looked at periodically. To accelerate that schedule to assure annual audits of every department would require a major increase of funding and staffing of the Audits Division.

This office has taken preliminary steps to increase the number of performance audits performed annually. Such a plan will require additional resources. We propose to select departments by an analysis of the risk factors present in each situation, assuring that higher-risk areas of operation are looked at more frequently and more intensively. We anticipate that this risk-based analysis will identify the Treasurer-Tax Collector as a high-frequency department. We will therefore work toward a yearly performance audit as recommended by the Grand Jury. We emphasize that to preserve the independence of the review, the audit function should remain in this office.



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We also note that the following audit activity is currently in place:

- A financial audit of the County's financial records, which includes the Treasurer/Tax Collector, is performed every year by an independent auditor.
- An independent CPA also audits the County of San Bernardino Treasury Investment Oversight Committee's adherence to statutory requirements.
- The Internal Audits Section of the Auditor/Controller-Recorder's office performs an audit of cash and investments held by the Treasurer six times a year to meet the statutory requirements of California Government Code Section 26920 through 26923.
- In 1999, the Internal Audits Section of the Auditor/Controller-Recorder's office performed an extensive audit of the Tax Collector's internal controls related to Tax Sale Trust Funds.
- An audit of cash controls of the Central Collections division is currently in progress.

Finally, we respectfully note that financial audits are not designed to uncover intentional criminal activity, but to examine the reported activities of the entity being audited. We believe that annual audits will increase the likelihood that illegal activity would be discovered or prevented, but we cannot speculate that an annual audit would "likely have picked up" the recent misconduct in the Treasurer-Tax Collector's office.

### Recommendations:

**00-39    Require the County Auditor/Controller, or an outside Audit firm, to conduct a full-scale performance and fiscal audit of the entire Treasurer-Tax Collector department once a year, as a routine business practice.**

We will develop and seek funding for an annual performance audit of the Treasurer/Tax Collector Department.

### Item 44:

**Finding: When the Assessor changes the assessed value on a property, a notice is sent to the taxpayer. This notification is a standard form that shows either a positive or negative number. If the value is a negative number, the taxpayer is entitled to a tax refund. In small print on the reverse side of the form it states "If the supplemental assessment results in a negative amount, the auditor shall make a refund of a portion of taxes paid on assessments made on the current roll or the roll being prepared or both." This statement *does not* call attention to the full significance of a tax refund.**



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The Assessor also sends a Roll Correction to the manager of the Property Tax Division in the Auditor's Office, where a calculation is made as to the amount of tax refund that is potentially owed by the County. The Property Tax Division sends out a form to the property owner if the refund is less than \$1,000 (if the amount of the refund is less than \$10 there is no notification form sent). If the amount of the refund is \$1,000 or more, the Property Tax Division researches who actually paid the tax (i.e., bank through an escrow account, etc.) and then the form is mailed to the party who actually made the payment.

Response: We agree with the finding.

### Recommendations:

**00-44** Include a separate sheet when the property tax division mails the claim for refund form, that clearly and simply states in large, "eye-catching" print *"This is a form to file for a refund of taxes already paid. No refund will be paid until this form is completed, signed, and returned to the Property Tax Division."*

We agree with the recommendation. We will include similar wording on all future claim forms, and will clearly indicate that the Property Tax Division will research some claim forms or require adequate documentation to determine the proper payee(s).

### Items 46-48:

**Finding:** Only *one* notification of a tax refund due is normally sent to the taxpayer. The notice is a simple one-page form that identifies the parcel number, tax year, amount and address of the property.

Response: We agree with the finding.

**Finding:** The State Revenue and Taxation Code provides that if a refund is not claimed by the taxpayer within four years, it may be claimed for the County General Fund on order of the Board of Supervisors. The last Board approved transfer to the General Fund was about \$1,200,000 in June 1998 for fiscal years 1984-85 to 1991-92. Through 1995 there is now about \$4,100,000 eligible for transfer, if the request is made to the Board of Supervisors.

Response: We agree with the finding.

### Recommendations:

**00-46** Make a conscientious search by the property tax division of businesses and individuals owed tax refunds and make a second mailing to notify those taxpayers they are eligible for an unclaimed tax refund.



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At this time, we are evaluating the processes to make the information of the unclaimed refunds available on a web-site. A system will have to be developed to allow us to add and delete parcels; to correct the taxpayers' names; indicate the status of the claiming process; to provide the potential claimant with the necessary forms; and to provide management reports. We have begun discussions to first identify the scope of the project and will then determine the estimated costs to develop, implement, and maintain the system.

**00-47 Place a notice in all of the major county newspapers by the property tax division alerting the public that there are only 30 days remaining to claim their tax refund, prior to requesting transfer to the general fund.**

Once the web-site has been completed (see Response to Recommendation #46), we can publish a notice (not a listing) in the newspaper to alert the public to visit the web-site since all unclaimed refunds four years and older will be transferred to the General Fund.

**00-48 Request the auditor annually submit to the Board of Supervisors for approval the timely transfer of the eligible unclaimed tax refunds to the general fund.**

We are now working to implement procedures to annually request Board of Supervisors' approval to transfer all allowable unclaimed refunds to the General Fund annually, probably at the end of the calendar year.

### **Items 111-113:**

**Finding: The 1997-98 Grand Jury made a recommendation that all conservators and guardians who do not have current filings be notified and given 30 days to bring their annual filings up-to-date to comply with the State Probate Code.**

**Of the 34 listed conservators, only 19 have current filings and of 19 guardians, only nine (9) have current filings.**

Response: We agree with the finding.

**Finding: With the passing of AB925, effective January 1, 2000, the California Attorney General's Office requires a current monthly listing of conservators and guardians filing within the State of California. It is the responsibility of the County Clerks' Office to send to the Attorney General the information on a monthly basis.**

Response: AB 925, effectively sections 2850-56 of the Probate Code, does not require the County Clerk to send information to the Attorney General's Office. It states that conservators and guardians who are required to file with the County Clerk's Office are also required to file separately with the Department of Justice. Further, it requires the *Court* Clerk to notify the Department of Justice when any meritorious complaint is filed against a conservator or guardian. Since October 1999, the County Clerk's Office has provided the Courts with a monthly listing of Conservators and Guardians who have valid filings and who have paid appropriate fees.



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**Finding: All records and filings pertaining to conservators and guardians within the County are now on a computer program at the County Clerk's Office.**

**Some of the conservator and guardian files are lacking required documentation such as fingerprint cards and receipts of fees paid.**

Response: We agree with the finding.

### **Recommendations:**

**00-111 Require the County Clerk's Office to notify conservators and guardians, in writing, at least 30 days in advance of the expiration date of their filings.**

The County Clerk's Office has begun notifying Conservators and Guardians, in writing, at least 30 days prior to their expiration date of their filing.

Since August 2000, a log has been kept of all annual filings. The log is used to distribute letters in an appropriate time frame. A supervisor has been delegated with the responsibility to monitor these logs and assure that these letters are mailed timely.

**00-112 Require the County Clerk's Office to provide the courts with a monthly listing of conservators and guardians who have valid filings and fees paid.**

Since October 1999, the County Clerk's Office has provided the Courts with a monthly listing of Conservators and Guardians who have valid filings and who have paid appropriate fees.

**00-113 Require the County Clerk's Office to bring all delinquent files up-to-date and drop from the listing all those conservators and guardians whose status is not current.**

With the implementation of the Private Professional Conservator/Guardian log (referred to in the response of 00-111), the County Clerk's Office will bring all delinquent files up-to-date and drop from the listing all those Conservators and Guardians whose status is not current. A supervisor has been delegated with the responsibility to monitor these files and assure that this process is maintained.

### **Item 152:**

**Finding: The Historical Records Commission and two previous Grand Juries (1995-96 and 1997-98) have recommended that the Archives be transferred to the County Recorder instead of being the responsibility of the County Librarian. When the Archives was established, it was placed under the Library without recognizing the added cost to the Library. Later, studies determined that the Archives should be under the direction of the County Recorder. Neither the County Recorder nor the County Librarian objects to the move, which has yet to be accomplished.**



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Response: We agree with the finding.

### Recommendations:

#### **00-152 Move the archives function from the county library to the county recorder's control as previously recommended by prior grand juries and the historical records commission.**

The Auditor/Controller-Recorder's Office agrees with the recommendation that the Archives be transferred to the County Recorder instead of being the responsibility of the County Librarian. The Auditor/Controller-Recorder and the County Library will work together to transfer the Archives and Records Management functions as part of the budget approval process for fiscal year 2001-02.

### ITEMS INDIRECTLY RELATED TO THE OFFICE OF THE AUDITOR/CONTROLLER-RECORDER

#### **Item 41:**

**Finding: Central Collections was established in fiscal year 1996-97 following the merger of the Division of Collections, San Bernardino County Medical Center, and Probation Accounting. Central Collections collects all past due accounts with the exception of past due property taxes and District Attorney's child support collections. It functions in the same manner as a collection agency in the private sector, except it has broader investigative powers. In fiscal year 1998-99 a total of \$18.6 million was collected. Reports show that a substantial amount of debt to the County is charged off for a variety of reasons, including weaknesses in the billing process.**

Response: We agree with this finding.

### Recommendations:

#### **00-41 Develop a more detailed and sophisticated reporting system, using dollar criteria to justify the decision, to be used whenever major debts owing the County are to be charged off.**

Departments are currently required by county policy to report charged off debt by applying for discharge from accountability. Until approval is received, the department is required to keep the debt on the department's books. Even when departments are granted discharge from accountability, the debt is not forgiven.

The Board of Supervisors elected to delegate the authority to grant discharge from accountability to the Auditor/Controller-Recorder. The Board of Supervisors granted the Auditor/Controller this function because of the bookkeeping nature of the function.



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According to Government Code 25257, debts can only be discharged if the amount is too small to justify the cost of collection, the likelihood of collection does not warrant the expense involved, or the amount has been otherwise lawfully compromised or adjusted. Department management decides which debts meet the Government Code requirements. The Auditor/Controller-Recorder reviews debts submitted for discharge from accountability for compliance with statute before granting discharge from accountability.

### Item 182:

**Finding:** The Vehicle Services Department (VSD) charges Motor Pool users a fixed monthly rate and a variable mileage rate for use of motor pool vehicles. County policy 02-05 requires the Auditor/Controller-Recorder to establish procedures for departments to follow in establishing rates, and provides for the Auditor/Controller-Recorder to provide oversight in the rate process. However, VSD is responsible to develop its fees and to forward its recommendations to the Board of Supervisors for approval. The Auditor/Controller-Recorder's office would normally conduct a detailed review of the VSD proposed rates. However, due to staff reductions, it has not conducted a detailed review for four years. During this period, VSD has only changed its rates in FY 1999-00 by one cent for fuel and oil charges in all vehicle size categories.

Based upon our review of the monthly fee, it appears that user departments are being overcharged by VSD. Our analysis of the most recent purchase order to replace 238 Motor Pool vehicles found that VSD had recovered \$633,000 more in replacement fees than the cost of the new vehicles. Further, in FY 1998-99, VSD collected almost \$800,000 more from user departments for insurance charges than the department was charged by Risk Management for insurance. Even though the department has been aware of the reduced insurance charges since at least 1998, no action was taken to adjust this fee. As of June 30, 1999 the Motor Pool Fund has a \$2.8 million surplus, which may be due in part to the overcharges identified.

**Response:** County Policy 02-05 focuses on the uniformity and application of generally accepted accounting principles and legal requirements to ensure solvency of all the internal service funds. The Policy states that departments retain the responsibility of ensuring efficient and economical operations and must therefore establish their own internal procedures to determine the bases and the amounts for their proposed rates.

The finding also comments that the Auditor/Controller-Recorder did not conduct a detailed rate review for four years due to staff reductions. County Policy 02-05 requires the Auditor/Controller-Recorder to respond to and review department-proposed rates. In spite of staff reductions, response was provided to those departments that requested rate reviews. The only request received from Motor Pool during this time was to adjust the fuel rate by one cent. Although there were no detailed rate reviews conducted, each year the Auditor/Controller-Recorder staff evaluated Motor Pool's financial position to verify solvency, to ensure there were no other financial issues requiring immediate attention, and that the retained earnings balances were within the guidelines set by the State Controller's Office.



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The finding also indicates there was a surplus in the Motor Pool fund of \$2.8 million as of June 30, 1999. An audit is currently in progress and will include an analysis of the \$2.8 million surplus components.

### **Recommendations:**

**00-182 Conduct a detailed fee study addressing the issues contained in this report, including the basis on which replacement and insurance fees are charged to user departments for Motor Pool vehicles, how variable per mile rate charge can be made more reflective of actual costs by vehicle type, and how the Motor Pool Fund \$2.8 million surplus should be utilized. This study should provide the Board of Supervisors with information on the impact of returning the unrestricted funds to Vehicle Services Department customers through one-time rebates, or over several years through the reduction of fees charged by the department, or through additional vehicle replacements.**

A comprehensive audit, including a rate study, is in progress and will take into consideration the current reserved and unreserved retained earnings balances, the insurance charges, the replacement charges, the level of cash necessary for liquidity, all other operating costs and revenues, and compliance with state guidelines. Additionally, the Auditor/Controller-Recorder will evaluate and project the financial position for 2-3 years in order to recommend rates that would make the necessary adjustments but would not fluctuate significantly from one year to the next.

### **Item 191:**

**Finding: Although the Vehicle Services Department contends its maintenance charges are lower than the private sector, based on hourly labor rates, the department cannot explain how its rates are determined, and documentation to determine whether all costs were included is lacking. Furthermore, the department does not have a formal system to evaluate repair productivity by comparing actual repair times to industry norms, even though department procedures state that such standards will be followed. An analysis of 42 repair operations on 18 work orders obtained from Vehicle Services found 13 cases, 31 percent, where work required longer than industry norms, although these differences may partly result from how mechanics report their time. This lack of management information prevents Vehicle Services from properly evaluating its own performance, and from competing for repair business from the Sheriff's Department and other County Vehicle users that do not use its services.**

Response: We agree with the finding.

### **Recommendations:**

**00-191 Conduct a rate study, with the assistance of the Auditor/Controller-Recorder's Office, to determine the basis for its labor charges and ensure that all costs are properly included in that charge.**





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The Auditor/Controller-Recorder is conducting an operational audit that will include recommendations for establishing labor rates.



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### Item 198:

**Finding:** The Vehicle Services Department and the Auditor/Controller-Recorder should take additional steps to ensure that data entry for the physical inventory is accurate, by ensuring during inventory planning that only qualified staff is used for this work, and by spot checking the work. In addition, the inventory should be scheduled to give Vehicle Services staff the on-line inventory is accurate, and to protect against theft, the Parts Room Manager should randomly select 25 items from its stock each month, comparing the physical inventory to the on-line inventory, researching and correcting any discrepancies. In addition, Auto Shop supervisors should inspect worn parts replaced during all repairs to ensure that replacement did in fact occur.

Response: We agree with the finding.

### Recommendations:

**00-198** Ensure that computer data entry on the annual physical inventory is accurate, by making sure data entry staff is qualified, and by spot-checking their work. Methods to implement this recommendation should be developed in an advance inventory planning process between the three departments prior to each year's inventory.

The procedures to ensure accuracy of the computer data entry were discussed with the Information Services Department, which contracts the data entry work. ISD agreed to closely supervise the data entry process. No significant data entry problems were noted in the June 30, 2000 inventory.

### Items 206, 209-212:

**Finding:** The Vehicle Services Department (VSD) is responsible to oversee the efficient operation of Motor Pool vehicles, including the issuance and oversight of gasoline credit cards and management of Countywide fueling stations. A review of this function found that County policy relating to use of credit cards is not being followed. User departments are not submitting all credit card slips to VSD. Therefore, VSD cannot accurately verify payments for credit card gasoline purchases before they are made or properly monitor credit card usage. Additionally, VSD does not spot check purchases for indiscriminate use, as required by County policy. Further, the current VSD process for issuing fuel credit cards and for making payments related to purchases on those cards lacks adequate internal controls.

The Vehicle Services Department should enforce County policy and departmental procedures related to the use and issuance of fuel credit cards, and implement appropriate sanctions for departments that do not comply with the policy. Finally, internal controls in this area should be strengthened. Implementing these recommendations will ensure that credit card transactions are appropriate, and that payments made for these purchases are proper.

Response: We agree with the findings.



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### Recommendations:

- 00-206 Re-evaluate the credit card program in terms of the number of cards outstanding, with consideration toward reducing the number of credit cards by issuing them at the department level. Further, appropriate procedures should be developed to control these cards at the department level.**

We agree that Vehicle Services should not have more credit cards outstanding than is necessary to meet departments needs. Appropriate procedures to issue gas credit cards and control their use need to be enforced. We will evaluate the gas credit card program as part of our operational audit that is in progress.

- 00-209 Update Vehicle Services Department Standard Procedure 3-07 to reflect the current credit card program, and change the procedure to incorporate a signature card system to ensure that credit card applications received from the departments are approved by appropriate department personnel.**

We agree that procedures need to be adopted to reflect the current system and that this system includes proper departmental authorizations to control credit card use. We will evaluate the gas credit card policies as part of our operational audit that is in progress.

- 00-210 Discontinue the use of station credit cards because of the inherent lack of control over who is using these cards.**

We agree that current practices with Station credit cards do not offer sufficient protection against misuse. Control over these cards should be strengthened or replaced with cards assigned to specific individuals and departments. We will evaluate controls over Station credit cards as part of our operational audit that is in progress.

- 00-211 Develop a procedure to comply with the County Standard Practice 12-04SP requirement that credit card purchases are spot-checked for indiscriminate use, including a review for transactions on canceled credit cards, a periodic review of the frequency and volume of credit card purchases on individual cards, and a methodology to take appropriate actions to resolve any issues identified.**

We agree that spot checks of credit card purchases by Vehicle Services would strengthen internal control. We will evaluate the gas credit card controls as part of our operational audit that is in progress.

- 00-212 Develop procedures so that staff responsibilities for the issuance and cancellation of credit cards are separate from staff responsible for the payment process for credit cards to increase internal controls in this area.**

We will evaluate the gas credit card program controls as part of our operational audit that is in progress.



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